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# 2<sup>ND</sup> QUARTERLY REPORT

## CAMBODIA MSME PROJECT

Implemented by Development Alternatives, Inc.

USAID Contract No. GEG-I-00-02-00014-00, Order 02

JANUARY-MARCH 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by Development Alternatives, Inc.



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The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



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## ABBREVIATIONS

ADB	Asian Development Bank
AFE	Action for Enterprise
AQIP	Agriculture Quality Improvement Project
BDS	Business Development Services
CADF	Cambodian Agricultural Development Facility
CDC	Council for the Development of Cambodia
CEDAC	Centre d'Etude et de Development Agricole Cambodgien
CIDA	Canadian International Development Agency
CIDS	Cambodian Institute for Development Studies
CIPE	Center for International Private Enterprise
CIS	Credit Information System
CIEDC	Cambodia-India Entrepreneurship Development Center
CMA	Cambodia Microfinance Association
CRS	Catholic Relief Services
DAFF	Department of Agriculture, Forestry and Fisheries
DAI	Development Alternatives, Inc.
DIME	Department of Industry, Mines and Energy
DOC	Department of Commerce
EIC	Economic Institute of Cambodia
FI	Financial Institution
GIS	Geographic Information Systems
GPS	Global Positioning System
GTZ	German Technical Cooperation
HEDC	Human Earth Development Center
IDE	International Development Enterprises
IFC	International Finance Corporation
ILO	International Labor Organization
KPP	Khmer Product Promotion
M&E	Monitoring and Evaluation
MFI	Microfinance Institution

MSME	Micro, Small and Medium Enterprise
NAI	Nathan and Associates, Inc.
NBC	National Bank of Cambodia
OGD	Office of General Development, USAID/Cambodia
PACT	PADCO/Pact Cambodia Program
PADEK	Partnership for Development in Kampuchea
PfD	Partners for Development
PSPP	Private Sector Development Project
PUAC	Peri-Urban Agricultural Center
SME	Small and Medium Enterprise
TAF	The Asia Foundation
TAMIS	Technical and Administrative Management Information System
TPC	Thaneakea Phum (Cambodia)
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VC	Value Chain
VCA	Value Chain Assessment

## FOREWORD

Pursuant to the requirements of the Cambodia Strengthening Micro, Small and Medium Enterprises Contract No.GEG-I-00-02-00014-00, Order 02, Development Alternatives, Inc. (DAI) is pleased to submit its second quarterly report, covering January-March 2006. This report tracks activities identified in our revised workplan and documents outcomes and achievements arising from those activities. The report also describes significant meetings and events, project publications, problems encountered and problems resolved. A final purpose of the report is to document activities planned for the next quarter.

In the Cambodia MSME Program, DAI draws on decades of development experience and employs an outstanding technical team of Cambodian and international experts to implement an ambitious program of value chain upgrading in four provinces in eastern Cambodia: Kampong Cham, Kratie, Prey Veng and Svay Rieng. Our staff is dedicated to a grassroots strategy that harnesses market forces to help reduce poverty and boost economic growth in these areas, which are among the poorest in Cambodia.

The activities of the Cambodia MSME Project during the second quarter reflect a transition from project start-up to project rollout. DAI completed its in-depth value chain assessment in January, choosing aquaculture, swine raising and tile manufacturing as priority value chains for Year 1 and cashews and agro machinery as potential target value chains beginning Year 2. Rollout activities in February and March included identification of key MSME partners, completion of a more detailed, revised project workplan to reflect the outcome of the value chain assessment, and the first project launch meeting in Kampong Cham Town.

In addition to the technical activities undertaken during the second quarter, Cambodia MSME also set up its two provincial offices and obtained the computer equipment that was shipped from the US in November 2005. DAI is grateful for USAID's help in working with the Council for the Development of Cambodia (CDC) to secure the release of DAI's IT shipment from Cambodian Customs and Excise in February.

During the second quarter, the Cambodia MSME Project has moved from start-up and assessment to project implementation. I and the other project staff are looking forward to working with USAID to formally launch the project in Prey Veng, Svay Rieng and Kratie and to continue implementation of our ambition workplan in all four target provinces in the third quarter.

Garrett Menning  
Chief of Party  
Cambodia MSME Project  
April 2006



# **I. INTRODUCTION:**

## **CAMBODIA MSME PROJECT VISION AND STRATEGY**

The Cambodia MSME Project has been funded by the U.S. Agency for International Development to promote economic growth in four of Cambodia's poorest provinces: Kratie, Kampong Cham, Svay Rieng and Prey Veng, located in the southeastern corner of the country. Development Alternatives, Inc. (DAI) is committed to a strategy founded upon identifying key gaps in provincial value chains and then facilitating the services and support necessary to address these problems and create a more conducive enabling environment in which these value chains can effectively compete and grow.

All the activities of the Cambodia MSME Project are founded upon a vision of improved entrepreneurship and competitiveness for MSMEs in the target provinces. A key element of this vision is the concept of "growing the rice bowl" for entrepreneurs in these areas. Currently many MSMEs in the southeastern provinces survive on paper-thin margins and do not have strong links to other firms or wider markets. This difficult commercial environment has bred widespread attitudes of distrust and "zero sum" thinking, in which entrepreneurs tend to see others as competitors for a small, finite pool of resources. The challenging business environment, coupled with negative attitudes toward cooperation, creates a type of "vicious circle" that works to perpetuate poverty and stymie growth.

While prevailing attitudes and ways of doing business are understandable and in many regards rational when viewed in the socioeconomic context of Cambodia's southeastern provinces, they can and must change if these provinces are to become more economically competitive and prosperous. The vision of the Cambodia MSME Project is to promote new ways of thinking and acting among local business people that emphasizes "non-zero sum" or "win-win" interactions among target MSMEs—interactions characterized by increased trust and cooperation.

The project aims to demonstrate the value of healthy competition (as opposed to mutually destructive, zero-sum competition) as a path toward creating a greater pool of wealth with benefits for all. By working with entrepreneurs to improve opportunities and incomes, the project seeks to demonstrate the value of networking, sharing information and pooling resources in ways that can benefit all MSMEs within the value chains where the project will work. In other words, successfully "growing the rice bowl" will require that DAI promote new entrepreneurial approaches and ways of doing business. Only by successfully fostering change in both areas—attitudes as well as behaviors—can the project help to create the kind of "virtuous circle" necessary sustained economic growth in the target provinces.

The vision of the Cambodia MSME Project for fostering entrepreneurship and competitiveness is summarized in the tables on the following page.

**TABLE 1.1. VISION FOR ENTREPRENEURSHIP**

<b>NOW</b>	<b>END OF PROJECT</b>
Zero-sum thinking (fixed, finite rice bowl)	Non-zero-sum thinking (growing rice bowl)
Entrepreneurs isolated and distrustful	Entrepreneurs sharing strategic information and resources
	Entrepreneurs linked to providers of resources that they need from MFIs, input and service providers
	Improved vertical and horizontal information flows within target VCs
	Entrepreneurs improve relationships with others in their VCs

**TABLE 1.2. VISION FOR COMPETITIVENESS**

<b>NOW</b>	<b>END OF PROJECT</b>
Unhealthy, mutually destructive competition	Healthier, mutually beneficial competition that spurs innovation and creates positive economic ripple effects
Value chains weak and fragmented	Value chains stronger and better integrated
Price-based competition	Competition based on product quality and diversification
Domestic markets dominated by goods from Thailand, Vietnam and other countries	Displacement of imports by local products in target VCs
Entrepreneurs do not make strategic investments	Entrepreneurs invest in activities with better economic returns
Entrepreneurs are risk averse and therefore likely to copy other MSMEs' products and business methods	Entrepreneurs innovate and take calculated risks to continually develop new products and business methods
Entrepreneurs lack thorough knowledge of markets for their products and services	Entrepreneurs have more timely and comprehensive knowledge of their product markets
Entrepreneurs do not appreciate the importance of marketing	Entrepreneurs understand how to better market their products through improved branding, customer loyalty, etc.
Entrepreneurs lack access to international markets	Where feasible for each VC: <ul style="list-style-type: none"> <li>• New export markets opened for products</li> <li>• Existing export markets expanded</li> </ul>

DAI recognizes that this vision will not be an easy one to achieve within the relatively short project timeframe. Success will require targeted interventions at key leverage points in the local economy. By demonstrating successes working with leading firms and entrepreneurs early on, the project aims to promote new attitudes and approaches that will improve the competitiveness among MSMEs up and down the chosen value chains, boosting sales and incomes. Finally, by helping MSMEs to work together to promote economic growth and advocate for pro-business reforms with local and national government, DAI aims to foster a more conducive commercial environment and to improve political and economic governance in the four target provinces.

The idea of leveraged economic growth and development lies at the heart of DAI's value chain methodology, which seeks to identify key constraints and opportunities in those sectors with the highest economic and developmental potential. In the second quarter of the Cambodia MSME Project, DAI finalized its selection of value chains for project interventions and refined its first year workplan accordingly. Based on the value chain assessment and the revised workplan, DAI then identified potential partners and specific interventions within the chosen value chains.

DAI selected three value chains for intervention during the first year: fish raising, pig raising, and roof and floor tile production. The project is considering working in the cashew and agro machinery value chains beginning in the second year. These value chains were chosen based on the potential for Cambodia MSME Project interventions to achieve significant positive impacts in the following key areas: market growth, revenue generation, job creation and increased opportunities for women and other underserved groups.

The expected results of the project interventions are divided into four components corresponding to IRs in the Mission's Strategic Objective 3 (Improved Political and Economic Governance):

*Component 1: Improved Performance of USAID-Assisted Enterprises in Targeted Value Chains.* DAI has assessed current constraints and opportunities for MSMEs within the chosen sectors so that it can work to upgrade value chain competitiveness by building the knowledge, capacity and skills of firms within the selected value chains. These activities are expected to result in increased volume and value of sales among 500 program-assisted MSMEs during the first year. The program targets for the first year are to double the volume and value of sales within the chosen value chains and improve the volume and value of sales of assisted MSMEs by an average of 50% (25% for rural MSMEs).

*Component 2: Enhanced Capacity of Value Chain Firms and Service Providers to Support Value Chain Competitiveness.* DAI is working to increase the capacity of providers of both stand-alone and embedded services and link these providers with MSME customers within target value chains. The first year target for the activities for this component is to assist at least 500 MSMEs in selected value chains to obtain needed business services, produce higher-value products, and use new technologies and production techniques. The program also aims to boost the number and value of new investments by MSMEs in products/ product

development, marketing efforts, skills upgrading, improved irrigation and/or other equipment, inputs, and/ or transport by at least 75% in the first year.

*Component 3: Improved MSME Access to Finance.* DAI is working to boost the “bankability” of MSMEs and promote financing and new financial products for enterprises within target value chains. Specific activities will include linking MSMEs with appropriate financial institutions, developing potential business models for new financial instruments, and examining the feasibility of using loan guarantees from USAID’s Development Credit Authority to leverage MSME financing within selected value chains. DAI is aiming for a 100% increase in the number of MSMEs who are able to get loans and a 100% increase in the number and volume of use of financial products available to MSMEs during the first year.

*Component 4: Improved Business Environment.* DAI’s final focus is to build the capacity of MSMEs to engage in local policy advocacy and dialog with government, foster the development of provincial business associations, and make the local business environment more conducive for MSME growth. These activities are expected to produce a 30% improvement in the advocacy skills of MSMEs, a 30% increase in the number of project-assisted organizations lobbying for improved business environment, a 6% increase in the number of project-assisted business organizations engaging in policy dialog, and a 25% increase in the number of microenterprises growing into SMEs during the first year of the project.



## **II. SECOND QUARTER ACTIVITIES**

### **A. In-Depth Value Chain Assessment**

A major technical challenge for DAI during the start-up phase of the project was to determine which value chains showed the greatest potential for project assistance in the target provinces. The in-depth value chain assessment in January marked the end of a winnowing process that began with a rapid sector selection activity conducted in the first quarter.

Each of the five highest-ranked sectors was evaluated an in-depth assessment. Action for Enterprise (AFE) provided the initial training and orientation for the in-depth VCA, led the assessment of the cashew value chain, and facilitated discussions of constraints, opportunities and possible interventions the value chain under consideration. At the conclusion of the assessment, the team members evaluated the five value chains according to criteria under three categories, which were pre-determined by DAI:

- Economic Potential
- Developmental Criteria
- Feasibility for the Project to Achieve Impacts.

Based on this activity, DAI chose fish raising, pig raising and tile manufacture as the three value chains for project focus during the first year. All five in-depth value chain assessments are described in detail in a collection of reports already submitted to USAID. This collection also includes a paper analyzing access to finance in all five sectors, along with an overview of the entire in-depth VCA by AFE. Based on the in-depth assessment, DAI submitted revised and refined workplan to USAID.

The next technical challenge for DAI was to identify the constraints, opportunities and possible project interventions for the selected value chains. This is described in Part B below.

## **B. Constraints, Opportunities and Intervention Strategies**

In the three value chains where DAI will focus its assistance this year, several key constraints have been identified and will be addressed in the coming months. For fish, the key constraints are apparently lack of market integration for fish raisers, together with insufficient knowledge and investment in production and processing. In the swine sector, DAI identified the leading constraints as lack of market access and information, as well as insufficient investment and expertise in pig raising and marketing. Finally, in the tile value chain, insufficient market information, lack of marketing activities and underinvestment in key production technologies appear to be the primary constraints.

The causal model presented below lays out project activities, outputs, outcomes and intended impacts. This information will be used to monitor and evaluate the project's success in achieving intended results. It will enable CIDS to monitor and evaluate the project. Additionally, by spelling out the project's intended effect on poverty alleviation, it will allow the project to gather information which can be used for an impact assessment. This will provide USAID with a rare test of the project's design and whether or not it will really be able to achieve the envisioned benefits.

**TABLE 2.1.1 CONSTRAINTS, SOLUTIONS AND ILLUSTRATIVE INTERVENTIONS FOR THE FISH VALUE CHAIN**

<b>Fish Value Chain</b>	<b>Strategy: Facilitate relationships and information flows to develop the market and improve quality of fish raised, processed and marketed to new and existing markets.</b>		
<b>Key Constraints</b>	<b>Solutions</b>	<b>Facilitators and Providers</b>	<b>Illustrative Interventions</b>
Fish raisers lack integration with and knowledge about <b>markets</b> outside local areas.	<ul style="list-style-type: none"> <li>➤ Link fish raisers to traders and others who can provide market services and information that producers demand.</li> <li>➤ Expand producers' awareness of new and existing markets for fish products.</li> </ul>	<ul style="list-style-type: none"> <li>➤ DAI.</li> <li>➤ Traders, processors, wholesalers, retailers.</li> <li>➤ Input suppliers.</li> <li>➤ Trade fair and other event organizers.</li> <li>➤ Local NGOs.</li> <li>➤ Commune councils, district government.</li> <li>➤ Business associations.</li> <li>➤ Local media.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Organize forums for leading firms to address market development constraints.</li> <li>➤ Organize cost-share exposure tours to new markets and develop relationships with other value chain participants.</li> <li>➤ Facilitate trade fairs and other events (e.g., industry meetings).</li> <li>➤ Facilitate dissemination of market information through local media.</li> </ul>
Insufficient knowledge, technology and investment for fish <b>processing</b> , packaging, storage and transport.	<ul style="list-style-type: none"> <li>➤ Facilitate communication among producers, processors and buyers.</li> <li>➤ Expose processors to best practices in relevant technologies, processes and standards.</li> <li>➤ Improve cold chain technology.</li> </ul>	<ul style="list-style-type: none"> <li>➤ DAI.</li> <li>➤ Leading buyers (e.g., wholesalers, restaurants).</li> <li>➤ Processors from neighboring countries.</li> <li>➤ National and international input suppliers (e.g., packaging materials, cold chain technology, machinery).</li> <li>➤ Regional experts, research and educational institutes.</li> <li>➤ Trade fair and other event organizers.</li> <li>➤ Local service providers (e.g., extension agents and trainers in fish processing).</li> <li>➤ Banks and MFIs.</li> <li>➤ Local NGOs.</li> <li>➤ Commune councils, district government.</li> <li>➤ Business associations.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Organize forums for leading processors to address common issues and challenges.</li> <li>➤ Facilitate trade fairs and similar events (e.g., industry meetings and exposure missions in neighboring countries).</li> <li>➤ Disseminate technical information and promotional materials from industry leaders, universities, research institutes and experts to processors.</li> <li>➤ Work with financial institutions to expand services and develop new products for fish processors.</li> <li>➤ Promote innovation and dissemination of cold chain technology (e.g., live fish transport, flash freezing) by the private sector.</li> </ul>
Insufficient investment and lack of information about chemicals, fish feed, improved fish varieties and sources of capital to boost quality and quantity of <b>production</b> .	<ul style="list-style-type: none"> <li>➤ Support leading firms and extension agents to improve and apply knowledge of fish raising.</li> <li>➤ Engage leading service providers and input suppliers to improve and expand services and input delivery to fish raisers.</li> </ul>	<ul style="list-style-type: none"> <li>➤ DAI field coordinators.</li> <li>➤ Leading buyers (e.g., wholesalers, restaurants, large processors, exporters).</li> <li>➤ National and international input suppliers (e.g., fish feed and chemical companies, fry and fingerling producers).</li> <li>➤ Regional experts.</li> <li>➤ Trade fair and other event organizers.</li> <li>➤ Local service providers (e.g., extension agents, trainers in fish raising).</li> <li>➤ Banks and MFIs.</li> <li>➤ Local NGOs.</li> <li>➤ Commune councils, district government.</li> <li>➤ Business associations.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Organize forums of industry leaders to improve product competitiveness.</li> <li>➤ Facilitate trade fairs and similar events (e.g., industry meetings and exposure missions in neighboring countries).</li> <li>➤ Facilitate discussions between regional experts and leading producers.</li> <li>➤ Facilitate private sector provision of training in fingerling and fish raising.</li> <li>➤ Work with financial institutions to expand services and develop new products for the fish raisers and input suppliers.</li> </ul>

**TABLE 2.1.2 CONSTRAINTS, SOLUTIONS AND ILLUSTRATIVE INTERVENTIONS FOR THE SWINE VALUE CHAIN**

<b>Swine Value Chain</b>			
<b>Strategy:</b> Facilitate expanded access to new and existing markets and improve productivity across the value chain.			
<b>Key Constraints</b>	<b>Solutions</b>	<b>Facilitators and Providers</b>	<b>Illustrative Interventions</b>
Fragmented supply chains and uncompetitive business practices limit <b>market access</b> .	<ul style="list-style-type: none"> <li>➤ Promote removal and reduction of uncompetitive business practices and trade barriers across the value chain that limit MSME ability to access markets.</li> </ul>	<ul style="list-style-type: none"> <li>➤ DAI.</li> <li>➤ Traders, processors, wholesalers, retailers.</li> <li>➤ Input suppliers.</li> <li>➤ Trade fair and other event organizers.</li> <li>➤ Local NGOs.</li> <li>➤ Local and national government.</li> <li>➤ Business associations.</li> <li>➤ Local media.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Organize forums of value chain actors to create awareness of constraints and solutions (e.g., removing licensing barriers limiting sales to abattoirs).</li> <li>➤ Facilitate trade fairs.</li> <li>➤ Promote advocacy by MSMEs in the value chain to government officials to remove trade barriers such as unnecessary fees and licenses.</li> <li>➤ Use information from the Provincial Competitiveness Index to highlight ways that value chain efficiency can be improved in each province.</li> <li>➤ Promote publicity about market barriers for MSMEs (e.g., work with local media to raise awareness of sales barriers and unofficial transport and inspection fees).</li> </ul>
Limited <b>market information</b> reduces pork industry investment, productivity and profits.	<ul style="list-style-type: none"> <li>➤ Improve awareness of market opportunities.</li> <li>➤ Facilitate communication among swine producers, processors and buyers.</li> </ul>	<ul style="list-style-type: none"> <li>➤ DAI.</li> <li>➤ Traders, processors, wholesalers, retailers.</li> <li>➤ Input suppliers.</li> <li>➤ Trade fair and other event organizers.</li> <li>➤ Local NGOs.</li> <li>➤ Commune councils, district government.</li> <li>➤ Business associations.</li> <li>➤ Local media.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Organize forums for leading firms to address gaps in market information.</li> <li>➤ Organize cost-share market exposure trips to neighboring provinces, Phnom Penh, Thailand and Vietnam.</li> <li>➤ Facilitate trade fairs and other events (e.g., industry meetings).</li> <li>➤ Facilitate dissemination of market information through associations, service and input providers and local media.</li> </ul>
Insufficient investment in and knowledge of appropriate technologies, vaccines, medicines, and feed limits <b>production</b> and processing capacity.	<ul style="list-style-type: none"> <li>➤ Expose pork producers and processors to best practices in relevant technologies, processes and standards.</li> <li>➤ Support leading firms and extension agents to improve and apply knowledge of pig raising and pork processing.</li> <li>➤ Engage leading input suppliers to improve and expand services and delivery to fish raisers.</li> </ul>	<ul style="list-style-type: none"> <li>➤ DAI.</li> <li>➤ Traders, processors, wholesalers, retailers.</li> <li>➤ Input suppliers, extension agents and service providers.</li> <li>➤ Trade fair and other event organizers.</li> <li>➤ Local NGOs.</li> <li>➤ Commune councils, district government.</li> <li>➤ Regional experts</li> <li>➤ Business associations.</li> <li>➤ Local media.</li> <li>➤ Banks and MFIs.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Engage private sector providers to inform pig producers about techniques to reduce swine mortality and improve health.</li> <li>➤ Facilitate private sector provision of appropriate technologies to improve: <ul style="list-style-type: none"> <li>\$ Production (e.g., medicines, sties).</li> <li>\$ Meat storage and transport (e.g., cold storage facilities, pig transport racks).</li> <li>\$ Processing (e.g., grinders, dryers).</li> </ul> </li> <li>➤ Encourage input providers to use Khmer language labeling on products.</li> <li>➤ Work with FIs to expand services and develop new products for the value chain.</li> </ul>

**TABLE 2.1.3. CONSTRAINTS, SOLUTIONS AND ILLUSTRATIVE INTERVENTIONS FOR THE TILE VALUE CHAIN**

<b>Roof and Floor Tile Value Chain</b>		<b>Strategy: Focus on improving industry productivity, quality and competitiveness against imports.</b>	
<b>Key Constraints</b>	<b>Solutions</b>	<b>Facilitators and Providers</b>	<b>Illustrative Interventions</b>
Manufacturers and resale agents lack <b>market information</b> on demand, including quality and price requirements.	<ul style="list-style-type: none"> <li>➤ Expand manufacturers' and agents' awareness of new and existing markets for tile.</li> <li>➤ Facilitate communication among tile manufacturers, middlemen and final buyers.</li> </ul>	<ul style="list-style-type: none"> <li>➤ DAI.</li> <li>➤ Retailers and resale agents.</li> <li>➤ Builders and construction companies.</li> <li>➤ Input suppliers.</li> <li>➤ Trade fair and other event organizers.</li> <li>➤ Business associations.</li> <li>➤ Local media.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Facilitate meetings between tile manufacturers and large buyers in Phnom Penh and other domestic locations.</li> <li>➤ Organize construction industry meetings that include tile manufacturers.</li> <li>➤ Encourage builders and construction companies to provide feedback to manufacturers about price and quality requirements.</li> <li>➤ Facilitate dissemination of market information through associations, service and input providers and local media.</li> </ul>
<b>Marketing and product differentiation</b> of Cambodian tile products is minimal, resulting in competition based primarily on price.	<ul style="list-style-type: none"> <li>➤ Encourage branding of local tile products.</li> <li>➤ Facilitate improved marketing services among resale agents, construction material suppliers and retailers.</li> </ul>	<ul style="list-style-type: none"> <li>➤ DAI.</li> <li>➤ Builders and construction companies.</li> <li>➤ Input suppliers.</li> <li>➤ Regional marketing and tile industry experts.</li> <li>➤ Business associations.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Organize cost-share exposure trips and building materials trade fairs to Vietnam and Thailand.</li> <li>➤ Link Cambodian tile manufacturers to Thai industry associations (e.g., brick manufacturers and construction materials industry associations).</li> <li>➤ Share costs with tile manufacturers and wholesalers for advisory services from regional marketing and tile industry experts.</li> </ul>
MSMEs underinvest in <b>production technology</b> for molding, grinding, and firing clay, reducing competitiveness with Thai and Vietnamese tile.	<ul style="list-style-type: none"> <li>➤ Boost awareness of new technologies that will improve quality and cost competitiveness.</li> <li>➤ Improve sources of capital to allow greater productive investment.</li> </ul>	<ul style="list-style-type: none"> <li>➤ DAI.</li> <li>➤ Tile wholesalers and retailers</li> <li>➤ Builders and construction companies.</li> <li>➤ Input suppliers.</li> <li>➤ Trade fair and other event organizers.</li> <li>➤ Regional experts.</li> <li>➤ Business associations.</li> <li>➤ Banks and MFIs.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Organize forums of leading input suppliers (clay, compression molds, grinders and other technologies), builders, construction supply companies and tile manufacturers to identify solutions to value chain constraints.</li> <li>➤ Organize cost-share trips for manufacturers to observe tile factories and markets in Thailand and Vietnam.</li> <li>➤ Work with private sector promoters to organize construction industry trade fair.</li> <li>➤ Work with FIs to expand services and develop new products to enable manufacturers to invest in new technology.</li> </ul>

**TABLE 2.2.1: PRELIMINARY CAUSAL MODEL FOR INTERVENTIONS IN THE FISH VALUE CHAIN**

<b>Fish Value Chain</b> <b>Strategy:</b> Facilitate relationships provision of inputs and services, and information flows to develop the market and improve quality of fish raised, processed and marketed to new and existing markets				
	<b>Project Activities</b>	<b>Outputs</b>	<b>Outcomes</b>	<b>Impacts</b>
Fish raisers lack integration with and knowledge about <b>markets</b> outside local areas.	<ol style="list-style-type: none"> <li>1. Organize forums for lead firms to learn about new markets, expand existing markets, learn about key issues on quality and future identification of markets.</li> <li>2. Facilitate trade fairs and other events (e.g., industry meetings).</li> <li>3. Organize cost-share exposure tours to new markets and develop relationships with other value chain participants.</li> <li>4. Facilitate dissemination of market information through local media such as TV, radio, and newspapers.</li> </ol>	<ul style="list-style-type: none"> <li>• Increased knowledge of potential markets and outside their immediate area leading to increased bargaining power with middlemen.</li> <li>• Increased access to new markets and relationships with lead firms in the value chain.</li> </ul>	<ul style="list-style-type: none"> <li>• Improved ability to market products and services to new markets and through new relationships.</li> <li>• Increased sales volume.</li> <li>• Potentially increased sales prices.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Increased income.</li> <li>➤ Increased employment.</li> </ul>

Insufficient knowledge and technology for fish <b>processing</b> , packaging, storage and transport.	<ol style="list-style-type: none"> <li>1. Organize forums for lead processors to address common issues and challenges.</li> <li>2. Facilitate trade fairs and similar events (e.g., industry meetings and exposure missions in neighboring countries).</li> <li>3. Disseminate technical information and promotional materials from industry leaders, universities, research institutes and experts to processors.</li> <li>4. Promote innovation and dissemination of cold chain technology (e.g., live fish transport, flash freezing) by the private sector. Includes forums, stimulating BDS by showing the business model of cold storage service provision to large buyers.</li> </ol>	<ul style="list-style-type: none"> <li>• Increased awareness and understanding of key issues</li> <li>• Increased knowledge of <b>processing</b>, packaging, storage and transport—leading to increased quality fish for sale</li> <li>• Private sector disseminates cold chain technology</li> </ul>	<ul style="list-style-type: none"> <li>• Increased consumption of Cambodian fish</li> <li>• Increase of processed fish</li> <li>• Decreased spoilage</li> </ul>	<ul style="list-style-type: none"> <li>• Increased revenue</li> </ul>	<ul style="list-style-type: none"> <li>\$ Increased income</li> <li>\$ Potential for increased jobs</li> </ul>
Insufficient investment in processing	<ol style="list-style-type: none"> <li>5. Work with financial institutions to expand services and develop new products for fish processors.</li> </ol>	<ul style="list-style-type: none"> <li>• FIs develop new services and products.</li> </ul>	<ul style="list-style-type: none"> <li>• Increased loans which lead to increased investments</li> <li>• and/or increased working capital</li> </ul>	<ul style="list-style-type: none"> <li>• Increased productivity</li> <li>• Increased production</li> </ul>	<ul style="list-style-type: none"> <li>➤ Increased net revenue and/or net income.</li> <li>➤ Increased net revenue and/or net income.</li> </ul>

Insufficient investment and lack of information about chemicals, fish feed, improved fish varieties and sources of capital to boost quality and quantity of production.	<ol style="list-style-type: none"> <li>1. Organize forums of industry leaders to improve product competitiveness.</li> <li>2. Facilitate trade fairs and similar events (e.g., industry meetings and exposure missions in neighboring countries).</li> <li>3. Facilitate discussions between regional experts and lead producers on production technology (seeds, medicines, etc.)</li> </ol>	<ul style="list-style-type: none"> <li>• Increase knowledge on chemicals, fish feed and fish varieties</li> <li>• Stronger linkages and social capital within industry.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in production volume by using different fish varieties, better chemicals</li> </ul>	<ul style="list-style-type: none"> <li>➤ Increase in income for the fish raisers (industry leaders—clarify)</li> <li>➤ Only larger enterprises might increase employment</li> </ul>
	<ol style="list-style-type: none"> <li>4. Facilitate private sector provision of training in fingerling and fish raising.</li> </ol>	<ul style="list-style-type: none"> <li>• Increased knowledge of how to raise and market fingerlings and fish</li> <li>• New training services offered</li> </ul>	<ul style="list-style-type: none"> <li>• Increased fish production</li> <li>• Lower premature fish mortality rates</li> </ul>	
	<ol style="list-style-type: none"> <li>5. Work with FIs to expand services and develop new products for the fish raisers and input suppliers.</li> </ol>	<ul style="list-style-type: none"> <li>• New financial products and services offered—leads to increased financing uptake</li> </ul>	<ul style="list-style-type: none"> <li>• Increased investment</li> <li>• Increased working capital leads to increased production</li> </ul>	<ul style="list-style-type: none"> <li>➤ Increased income to MSEs</li> <li>➤ Increased jobs created within MSMEs</li> </ul>



**TABLE 2.2.2: PRELIMINARY CAUSAL MODEL FOR INTERVENTIONS IN THE SWINE VALUE CHAIN**

<b>Swine Value Chain</b> <b>Strategy:</b> Facilitate expanded access to new and existing markets and improve product quality and competitiveness across the value chain.				
	<b>Project Activities</b>	<b>Outputs</b>	<b>Outcomes</b>	<b>Impacts</b>
Fragmented supply chains and uncompetitive business practices limit <b>market access</b> .	1. Organize forums of value chain actors to create awareness of constraints and solutions (e.g., removing licensing barriers limiting sales to abattoirs). 2. Promote advocacy by MSMEs in the value chain to government officials to remove trade barriers such as unnecessary fees and licenses. 3. Promote publicity about market barriers for MSMEs (e.g., work with local media to raise awareness of sales barriers and unofficial transport and inspection fees). ----- 4. Facilitate trade fairs. 5. Use information from the Provincial Business Economic Scorecard (PBES) to highlight ways that rents from government and private sector monopolies can be reduced	<ul style="list-style-type: none"> <li>Increased knowledge and advocacy on trade barriers</li> </ul> ----- <ul style="list-style-type: none"> <li>Increased knowledge of markets and prices</li> </ul>	<ul style="list-style-type: none"> <li>Reducing in costs related to trade licensing</li> </ul> ----- <ul style="list-style-type: none"> <li>Increased sales</li> </ul>	➤ Increased net income  ----- ➤ Increased income
Limited <b>market information</b> reduces pork industry investment, productivity and profits.	1. Organize forums for lead firms to address gaps in market information. 2. Organize cost-share market exposure trips to neighboring provinces, Phnom Penh, Thailand and Vietnam. 3. Facilitate trade fairs and other events (e.g., industry meetings). 4. Facilitate dissemination of market information through associations, service and input providers and local media.	<ul style="list-style-type: none"> <li>Increase knowledge on pork market and strengthen the buyer and seller relationship</li> </ul>	<ul style="list-style-type: none"> <li>Increase in sales volume</li> </ul>	➤ Increase in income

<p>Insufficient investment in and knowledge of appropriate technologies, vaccines, medicines, and feed limits <b>production, marketing and processing.</b></p>	<ol style="list-style-type: none"> <li>1. Engage private sector providers to inform pig producers about techniques to reduce swine mortality and improve health. (e.g., medicines, sties).</li> <li>2. Facilitate private sector provision of appropriate technologies to improve marketing and storage (e.g., cold storage facilities, pig transport racks).</li> <li>3. Encourage input providers to use Khmer language labeling on products.</li> <li>4. Facilitate private sector provision of appropriate training and technologies to improve production processing (e.g., grinders, dryers).</li> <li>5. Work with FIs to expand services and develop new products for the value chain.</li> </ol>	<ul style="list-style-type: none"> <li>• Increase in knowledge on techniques of pig raising</li> <li>• Pig farmers have better production knowledge Better knowledge of transport and storage</li> <li>• Better packaging</li> <li>• Processors have better knowledge of how to process. Processors adopt improved technology</li> <li>• New FI products and services</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction in mortality rate of swine-- Increase production volume</li> <li>• Less pig mortality leads to increased production volume and increased sales</li> <li>• Less spoilage leads to increased net income</li> <li>• Increased sales</li> <li>• Increased investment leads to higher productivity</li> <li>• Increased working capital leads to increased production</li> <li>• Increased sales and revenues due to increased market demand for better financial products</li> </ul>	<ul style="list-style-type: none"> <li>➤ Increased income of pig producers (no employment generation)</li> <li>➤ Increased income to value chain participants, particularly processors, distributors, and retailers</li> <li>➤ Increased income to value chain participants (retail, distribution, and hopefully benefits distributed down the value chain to micro enterprises)</li> </ul>
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	<b>Roof and Floor Tile Value Chain</b> <b>Strategy:</b> Focus on improving industry productivity, quality and competitiveness against imports.			
	<b>Project Activities</b>	<b>Outputs</b>	<b>Outcomes</b>	<b>Impacts</b>
<b>Manufacturers and resale agents lack market information on demand, including quality and price requirements.</b>	1. Facilitate meetings between tile manufacturers and large buyers in Phnom Penh and other domestic locations. 2. Organize construction industry meetings that include tile manufacturers. 3. Encourage builders and construction companies to provide feedback to manufacturers about price and quality requirements. <hr/> 4. Facilitate dissemination of market information to producers through associations, service and input providers and local media.	<ul style="list-style-type: none"> <li>• Producer gain increased understanding of market demand, and identify new markets</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Manufacturers receive information on prices and locations of prices</li> </ul>	<ul style="list-style-type: none"> <li>• Increased volume of production for new markets</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Increased price-- \$ value of sales/ volume (esp. for medium and large enterprises)</li> </ul>	<ul style="list-style-type: none"> <li>➢ Increased income</li> <li>➢ For medium and large would lead to increased employment</li> </ul> <hr/> <ul style="list-style-type: none"> <li>➢ Increase income</li> <li>➢ Increase employment opportunities</li> </ul>
<b>Marketing and quality product differentiation of Cambodian tile products is minimal, resulting in competition based primarily on price.</b>	1. Organize cost-share exposure trips and building materials trade fairs to Vietnam and Thailand. 2. Link Cambodian tile manufacturers to Thai industry associations (e.g., brick manufacturers and construction materials industry associations). <hr/> 3. Share costs with tile manufacturers and wholesalers for advisory services from regional marketing and tile industry experts.	<ul style="list-style-type: none"> <li>• Increased understanding of new products</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Increased understanding of new market opportunities and prices</li> </ul>	<ul style="list-style-type: none"> <li>• Increased lines of production, either higher volume of production or higher value (price received)</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Sell for a higher price/increased revenues--might sell more/ higher volumes of sales</li> </ul>	<ul style="list-style-type: none"> <li>➢ Increased income</li> <li>➢ Possibility of increased employment</li> </ul>

<p>MSMEs under-invest in <b>production technology</b> for molding, grinding, and firing clay, reducing competitiveness with Thai and Vietnamese tile.</p>	<p>5. Organize forums of leading input suppliers (clay, compression molds, grinders and other technologies), builders, construction supply companies and tile manufacturers to identify solutions to value chain constraints.</p> <p>6. Organize cost-share trips for manufacturers to observe tile factories and markets in Thailand and Vietnam.</p> <p>7. Work with private sector promoters to organize construction industry trade fair.</p> <p>-----</p> <p>8. Work with FIs to expand services and develop new products to enable manufacturers to invest in new technology.</p>	<ul style="list-style-type: none"> <li>• Increase understanding of good production techniques</li> <li>• Increased marketing linkages</li> </ul> <p>-----</p> <ul style="list-style-type: none"> <li>• Manufacturers have better access to financial instruments such as loans</li> </ul>	<ul style="list-style-type: none"> <li>• Increase volume of production</li> </ul> <p>-----</p> <ul style="list-style-type: none"> <li>• Increase investment</li> </ul>	<ul style="list-style-type: none"> <li>➤ Increased income</li> <li>➤ Increased employment opportunities</li> </ul>
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Notes: Increased employment is more likely in the tile and the fish value chains than it is in the swine value chain as pig farms need few employees to manage many different volumes of pigs whereas fish and tiles are both more labor intensive industries. However, gains in employment might be seen at different levels of the swine value chain such as at the processing level.

## **C. Component 1 Activities: Improving Performance of Project-Assisted Enterprises in Selected Value Chains**

In January DAI contracted and mobilized staff for five teams to assess the highest-rated value chains from the rapid VCA conducted in November 2005: brick and tile manufacture, swine raising, fisheries, agro machinery and cashews. Each team consisted of a Team Leader, Value Chain Coordinator and Interviewer/Translator. Team members were drawn from DAI technical staff as well as staff from International Development Enterprises (IDE), the Cambodian Agricultural Development Facility (CADF), the Peri-Urban Agricultural Center (PUAC), and the Cambodian Institute for Development Studies (CIDS). Henry Panlibuton of the US-based NGO Action for Enterprise (AFE) conducted VCA workshops and led the team assessing the cashews value chain. A representative of the Economic Institute of Cambodia (EIC) also participated in the initial VCA planning/orientation workshop. Each team completed reviews of published documents relating to their assigned value chains and then conducted interviews, observations and focus group discussions of these value chains in the target provinces to select the top three VCs for intervention.

The in-depth value chain assessment identified three value chains with the greatest potential for intervention in the first year of the project from the list of 20 assessed in November 2005. The team assessed the top five VCs from this list: swine raising, fisheries, brick and tile, agro machinery and cashews. A planning workshop was conducted on January 5 and 6, followed by three weeks of field research. A final workshop was conducted January 30-31. The value chains identified for intervention during the first year were fisheries, swine raising and tile manufacture. The entire VCA process is described in detail in a series of reports submitted to USAID in March 2006.

Work in the remainder of the first quarter in Component 1 focused on ways of effectively addressing constraints and opportunities in the fish, pig and tile VCs. This process began with a revision of the project's first annual workplan to incorporate more detailed intervention plans and more details about project monitoring and evaluation. DAI staff contacted representatives of the following NGOs and donors to discuss areas of possible:

- AusAID's Agricultural Quality Improvement Project (AQIP)
- Cambodian Agricultural Development Facility (CADF)
- Cambodia-India Entrepreneurship Development Center (CIEDC)
- Cambodia Institute for Development Study (CIDS)
- Canadian International Development Agency (CIDA)
- Catholic Relief Services (CRS)
- German Technical Cooperation (GTZ)
- International Finance Corporation (IFC)
- Kampong Cham SME Association
- Nathan and Associates, Inc. (NAI)
- The Asia Foundation (TAF)
- Thaneakea Phum (Cambodia) (TPC)
- Technical staff from Departments of Industry, Mines and Energy (DIME), Commerce (DOC) and Agriculture, Forestry and Fisheries (DAFF)

- USAID/Cambodia, including meetings with the Education Development Specialist in the Office of General Development (OGD) and the Mission's Monitoring and Evaluation Specialist

The most important meetings organized or attended by DAI included:

- Project launch meeting in Kampong Cham Town on March 30, attended by members of all three target VCs (including six women pig raisers) attended the project kick-off meeting in Kampong Cham.
- Component 1 Leader attended the program "Making service markets work better for the enterprise effectiveness" organized by the Springfield Centre in Phuket, Thailand on March 6-10.
- Focus group discussion in Svay Rieng with a group of pig and fish raisers from CRS-organized self-help groups (including six female heads of household) to discuss possible project activities, improved competitiveness and market development.
- DAI's COP attended the Private Sector Working Group meeting organized by the IFC on March 6. Items discussed included bringing more provincial business associations to future meetings and boosting brick and tile exports to Thailand.
- DAI met with GTZ and private sector trade show organizers to discuss the possibility of working together to organize trade fairs for provincial MSMEs.
- DAI discussed ways of using the Provincial Business Environment Scorecard (PBES) to leverage government to break slaughterhouse monopolies in Svay Rieng and Prey Veng.
- Meeting between Component 1 staff and MEDIVET, a leading supplier of pharmaceutical and chemical inputs and TA for the fish and swine sectors.

The launch meeting in Kampong Cham and other interviews and meetings during the second quarter allowed DAI to identify the following lead entrepreneurs as potential partners to work with in its initial interventions:

- 3 brick and tile producers in Kampong Cham
- 1 pig and fish raiser in Kampong Cham
- 7 pig raisers in Kampong Cham
- 1 fish trader in Kampong Cham
- 1 pig trader in Kampong Cham
- 1 pig raiser in Prey Veng

**TABLE 2.3: MATRIX OF ACTIVITIES FOR COMPONENT 1**

INTERMEDIATE RESULTS	PERFORMANCE INDICATORS	ANNUAL PERFORMANCE TARGET	ACTIVITIES	Jan	Feb	Mar
Improved performance of USAID-assisted enterprises in targeted value chains	1. Volume and value of sales of program-assisted enterprises	50% increase in volume of sales	<b>1.1. Identify value chains that have potential for significant positive impact in market demand, job creation, and revenue generation</b>			
		50% increase in value of sales	1.1.4. Carry out in-depth VCA to determine constraints and opportunities	X		
	2. Volume and value of sales of program-assisted rural-based MSMEs	25% increase in volume of sales	1.1.5. Submit final report to USAID, including more detailed Workplan per value chain and three target value chains for year one		X	
		25% increase in value of sales	1.1.6. Submit detailed Value Chain Assessment Report to USAID			X
	3. Volume and value of sales of program-assisted value chains	100% increase in volume of sales	<b>1.2. Upgrade value chain competitiveness by building the knowledge, capacity and skills of firms within those value chains</b>			
			1.2.1. Identify and establish relationships with NGOs, donors, authorities and business and producer networks operating in the fish, swine and tile VCs.	Ongoing		
	4. Number of enterprises which have increased sales of program-assisted commodities/ products	100% increase in value of sales	1.2.2. Grow relationships with women entrepreneurs in the fish, swine and tile VCs willing to invest resources in market development activities.	Ongoing		
		500 Enterprises	1.2.3. Identify leading firms in fish, swine and tile VCs to engage with to promote initial interventions. 1.2.6. Coordinate with Component 4 to pilot attempt to circumvent or remove slaughterhouse monopolies in the swine VC.	Ongoing		

## **D. Component 2 Activities: Enhancing Value Chain Competitiveness**

During the second quarter Component 2 staff began to develop interventions to improve services to address constraints in the fish, pig and tile value chains identified during the in-depth VCA. Working through existing communities, self-help groups, NGOs and other local organizations, project staff pursued discussions with MSMEs in the target VCs to better determine how the project can improve MSME access to and awareness of needed services.

Component 2 staff sought feedback and discussed relevant partnerships with representatives of the following organizations and projects:

- AQIP
- Centre d'Etude et de Development Agricole Cambodgien (CEDAC)
- CIDA
- CRS
- GTZ
- Kampong Cham Chamber of Commerce
- Kampong Cham SME Association
- NAI
- PADCO/Pact Cambodia Program (PACT)
- Partners for Development (PfD)
- Partnership for Development in Kampuchea (PADEK)
- TPC

DAI also met with more than 50 provincial MSMEs in the swine, fish, and tile sectors; leading tile firms in Phnom Penh; producer associations; and representatives of commune, district and provincial government, including Departments of Agriculture and Offices of Fisheries, to gather information and explore areas of possible cooperation in the value chains being assessed.

As a result of these meetings, DAI identified a number of gaps in the delivery of various inputs and services, including:

- swine medicines and vaccines
- fish and pig feed
- tile manufacturing technologies
- marketing of swine in Svay Rieng due to government interventions in the market
- information on the delivery requirements for roof and floor tiles
- training in proper pig- and fish-raising techniques
- gaps in available technical assistance on kiln design and firing techniques
- deficiencies in marketing services across the target VCs.

DAI then began negotiations with relevant input and service suppliers to explore ways of facilitating private sector provision of needed services.



DAI then identified a number private sector input providers to work with in potential initial interventions to bridge these gaps. Providers contacted included:

- 2 hatchery owner in Kampong Cham
- Fish raising expert and trainer in Svay Rieng
- 2 veterinarians in Kampong Cham
- MEDIVET, a large primary supplier of veterinary services and pharmaceuticals to animal raisers
- CP Group
- Lian Heng Fisheries Export Company

DAI also explored sustainable service delivery options with representatives of various NGOs and donor programs operating in Cambodia. DAI met with:

- IDE country director and several IDE-trained extension agents to examine the potential of applying a similar extension model to the pig and fish VCs
- A former AQIP employee and staff of Human Earth Development Center (HEDC) to discuss models for trader capacity-building to strengthen market channels in the pig and fish VCs
- The advisor to the Cambodia-India Entrepreneurship Development Center (CIEDC) to discuss ways of promoting sustainable entrepreneurship/vocational training in the target provinces and VCs

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**Table 2.4.: MATRIX OF ACTIVITIES FOR COMPONENT 2**

INTERMEDIATE RESULTS	PERFORMANCE INDICATORS	ANNUAL PERFORMANCE TARGET	ACTIVITIES	Jan	Feb	Mar
Enhanced capacity of value-chain firms and/or stand-alone providers to support competitive value chains	1. Number of MSMEs obtaining commercially provided business services, technical assistance services, and/or after-sales services resulting from program activities	500	<b>2.1. Identify Necessary Services, Current Providers, and Service Gaps</b>			
			2.1.1. Identify and establish relationships with local NGOs, donors, authorities, existing businesses, producer networks and associations providing services to MSMEs in the fish, swine and tile VCs.	Ongoing		
			2.1.2. Engage in roundtable discussions and conduct focus groups with MSMEs in fish, swine and tile VCs to explore most feasible options for improving value chain services based on constraints and opportunities identified in VCA and early implementation activities		Ongoing	
			2.1.3. Identify existing service providers in the fisheries VC who DAI may support in providing commercially viable TA and training in aquaculture in underserved areas			
			2.1.4. Identify clay input providers and compression mold/extruder design service providers in tile VC who DAI may support to improve technology for tile VC			X
			2.1.5. Identify commercially viable input suppliers in the swine and fish value chains who can provide needed feed, medicines, vaccines and cold storage technology.			X
	2. Number of MSMEs producing new, higher-value products, and/or using improved production practices, inputs, or technologies	500	<b>2.2. Upgrade the Skills of Service Providers and Link Buyers and Suppliers to Address VC Constraints and Opportunities</b>			
			2.2.1. Upgrade the capacity of commercially viable input suppliers in the swine and fish value chains to improve producer access to feed, medicines, vaccines and cold storage technology.			On-going
	3. Number and value of new investments by MSMEs in products/ product development, marketing efforts, skills upgrading, improved irrigation and/or other equipment, inputs, and/or transport	75% Increase	2.2.2. Conduct awareness building among MSMEs in fisheries, swine and tile VCs to inform them about available business services that can help them upgrade, produce higher-value products and use			
			2.2.3. Facilitate trainings to service providers in the fish, swine and tile VCs where necessary to upgrade their skills and help them to market their services			
			2.2.4. Coordinate with Components 1, 3, and 4 to ensure availability of appropriate services for fish, swine and tile MSMEs.		Ongoing	

## **E. Component 3 Activities: Improving MSME Access to Finance**

Throughout the In-Depth VCA, the Component 3 Team examined MSME access to finance across all value chains assessed. The team spent most of the time in Kampong Cham, but also had the chance to get primary understanding of the five sub-sectors in the other three provinces as well. Some of major issues identified included:

- Lack of working capital
- Lack of land titles, hindering access to loans
- Lack of information on credit/financing facilities
- Prevailing negative attitude toward debt
- Dislike for the requirement of a third party as guarantor
- Other constraints besides interest rate, including payments to guarantor and authorities
- The effective rate of interest rate is higher than the set rate
- Repayment modes set by financial institutions (FIs) are not flexible enough
- Stand alone businesses with no regular income are not targeted for lending

In the course of in-depth VCA interviews, the Component 3 Team informed MSMEs of FI requirements and discussed needs identified by MSMEs with FIs in the course of the in-depth VCA.

During the second quarter, members of the Component 3 Team participated in the following meetings:

- Microfinance Summit (Jan 11-13), jointly organized by the United Nations Development Programme (UNDP), the National Bank of Cambodia (NBC), and the Cambodia Microfinance Association (CMA).
- Meeting with all Specialized Banks to learn about their financial activities (what products, what sectors, coverage of operations, their terms) in relation to lending to SMEs
- Workshop on “Merit and Drawback of Inflation Targeting” at National Bank of Cambodia.
- Microfinance Conference at Royal Universities of Law and Economics
- Workshop on “Moral Consequence of Economic Growth” at National University of Management.
- Workshop on the Life Insurance Business and Micro Insurance Provision
- ADB workshop on Financial Sector Development Blueprint Updates
- Meeting at NBC, in which Component 3 Leader received a positive response to his request from the ADB Mission to further support Microfinance Institution (MFI) accession to the Credit Information System (CIS) to improve MFI credit information sharing.
- Meeting with Maros Apostol, COO of TPC, to discuss ways of improving MSME finance and possible cooperation in Svay Rieng and Kampong Cham.
- Visit to Svay Rieng to discuss access to finance issues with members of CRS-organized fish and pig producer groups.

The Component 3 Team took the lead in organizing the first provincial project launch meeting in Kampong Cham. In this capacity the team:

- Helped select key districts to canvas for attendees
- Contacted and mobilized stakeholders, business associations, financial institutions, government authorities to participate

Begin discussions with FIs about feasibility of expanding the range of financial products available to MSMEs on selected value chains.

The Access to Finance Team also continued a number of activities begun in the first quarter of the project, including:

- Research on current lending practices and impediments to lending
- Work with MSMEs on using DAI's very simple financial tracking template
- Contact and discussion with ADB SME Project. Determined that the SFRT is too complex to be relevant to the vast majority of MSMEs in the target provinces
- Continuing discussions with MSMEs in order to determine appropriate interventions to improve availability of relevant financial instruments
- Soliciting feedback from MSMEs at the Kampong Cham meeting about their financial needs

During the second quarter DAI held discussions with a number of FIs on several other issues as well. The Component 3 Team sent the very simple financial tracking template to relevant financial institutions and MFIs. These institutions expressed very strong support for DAI's efforts to disseminate the template to target MSMEs. The Component 3 Team also met with the Director and Deputy Director General of NBC to discuss the possibility of helping MFIs gain access to CIS. NBC granted approval.

**TABLE 2.5.: MATRIX OF ACTIVITIES FOR COMPONENT 3**

INTER-MEDIATE RESULTS	PERFORMANCE INDICATORS	ANNUAL PERFORMANCE TARGET	ACTIVITIES	Oct	Nov	Dec
<b>Improved MSME access to finance</b>	1. Number of MSMEs able to obtain new loans	100% increase	<b>3.1. Increase “bankability” of MSMEs in selected value chains</b>			
			3.1.1. Identify and establish relationships with local NGOs, donors, authorities, existing businesses, producer networks and associations			<b>X</b>
			3.1.2. Conduct an assessment on current lending patterns and impediments to lending			<b>X</b>
	2. Number of financial instruments available to different sizes and types of enterprises in selected value chains	100% increase	<b>3.2. Promote financial services for MSMEs in selected value chains</b>			
			3.2.1. Identify practical needs of firms for financial instruments			<b>X</b>
			3.2.5. Coordinate with ongoing ADB SME project and evaluate the relevance of the simplified financial reporting template (SFRT) to MSMEs and FIs			<b>X</b>
	3. Volume of use of financial instruments described above	100% increase	<b>3.3. Facilitate intra value chain financing for MSMEs</b>			
			3.3.1. Coordinate with Components 1, 2, and 4 to ensure availability of appropriate financial services			<b>X</b>

## **F. Component 4 Activities: Improving the Business Environment**

As part of the In-depth VCA, assessment teams analyzed enabling environment issues as part of its value chain assessment SOW and searched for existing business associations and networks in each of the target value chains. The VCA uncovered no formal VC-specific associations and indicated high levels of mutual distrust and an overall lack of large-scale cooperation among MSMEs in any of the target sectors.

During the second quarter DAI began to assess the advocacy capacity of MSMEs in each of the value chains being considered in the VCA, and searched for key areas of the selected VCs where MSMEs might achieve the greatest benefits from policy advocacy. While DAI found that MSME advocacy capacity is currently very weak in the target VCs, there seemed to be strong potential benefits in helping MSMEs to advocate for changes in the current marketing arrangements of swine raisers in Svay Rieng and Prey Veng. This system unfairly restricts market access among pig raisers by limiting the number of local slaughterhouses that are allowed to operate and restricting licensing of those who can sell pigs directly to these slaughterhouses. A meeting between the DAI COP and the IFC highlighted restricted market access for provincial pig raisers selling to slaughterhouses as an issue of common concern that could be brought before the IFC-organized Private Sector Working Group.

The COP also met with USAID and the US-based Center for International Private Enterprise (CIPE), which supports the private sector in countries around the world in policy advocacy and institutional reform. The CIPE representatives expressed interest in the possibility of working with the Cambodia MSME Project to promote grassroots advocacy and association-building in the program's target provinces. DAI and CIPE agreed to explore the idea further.

DAI staff attended the Phnom Penh Trade Fair, which took place on February 3-5, 2006 and met with the International Labor Organization (ILO), GTZ, the Khmer Product Promotion (KPP), and others on the organizing committee for the fair. DAI suggested the possibility of cooperating to build on the success already achieved in the Phnom Penh Fair to organize a similar to promote Cambodian products in Kampong Cham. However, DAI pushed for more private sector involvement and sustainable financing for such events in future.

Further progress on Component 4 in the second quarter was hindered by prolonged contract negotiations between DAI and TAF, which prevented many of the Component 4 activities continue to be carried out to a limited degree by teams from Components 1, 2 and 3.

**TABLE 2.6.: MATRIX OF ACTIVITIES FOR COMPONENT 4**

INTERMEDIATE RESULTS	PERFORMANCE INDICATORS	ANNUAL PERFORMANCE TARGET	ACTIVITIES	Jan	Feb	Mar
Improved business environment	1. Advocacy skills of relevant self-sufficient associations and member-based organizations strengthened	30% improvement	<b>4.1. Build the capacity of provincial MSMEs to engage in policy advocacy at local levels</b>			
			4.1.1. Coordinate with Components 1-3 to identify current business associations, networks, and member-based organizations in the fish, swine and tile VCs and assess their advocacy interests, skills, and activities	X		X
			4.1.2. Conduct focus group discussions among participants in the fish, swine and tile VCs to identify value chain constraints and explain how policy advocacy can assist resolving them (In concert with activities identified in Components 1 and 2)			X
	2. Number of project-assisted associations/ member-based organizations that lobby for improved industry-level policies, laws and/or regulations	30% increase	<b>4.2. Facilitate MSMEs to work through local business networks</b>			
			4.2.1. Carry out targeted to identify specific enabling environment constraints in fish, swine and tile VCs.	Ongoing		
			4.2.2. Assist MSME member-based organizations in the fish, swine and tile VCs to define advocacy needs.		Ongoing	
			4.2.3. Coordinate with Component 3 to facilitate MSME networking in the fish, swine and tile VCs to obtain new sources of finance.			On-going
	3. Number of project-assisted associations/ member-based organizations (formal and informal) that participate in local and national policy development dialogs	6% increase	<b>4.3. Develop constructive dialogue between MSMEs and authorities for an improved business environment</b>			
			4.3.3. Coordinate with Component 1 to lobby authorities to remove or mitigate regulatory and market barriers and distortions in the fish, swine and tile VCs, such as pig slaughterhouse monopolies.		Ongoing	
	4. Increased no. of microenterprises graduating to SME status	25% increase	<b>4.4 Improve the business environment to foster private sector growth in the selected provinces</b>			
			4.4.2. Coordinate with Component 1 to organize pilot regional exposure trips and attendance and participation in regional trade fairs to widen and deepen MSME networks and relationships.			On-going

## **G. OTHER NOTABLE EVENTS AND ACTIVITIES**

### Staffing and administrative activities:

- DAI completed staffing and equipping of its office and guest house in Kampong Cham.
- DAI recruited two Cambodian staff who had taken part in the in-depth VCA to act as support staff to provide translation, coordination and other services during project planning for VC interventions in March-May.
- USAID met with CDC to invoke assistance under the bilateral agreement between the U.S. and Cambodia. The CDC issued an approval letter and DAI was able to obtain release of its IT equipment from Customs and Excise.
- Began biweekly project technical meetings to promote cooperation and synergy among program components.

### Presentations by Cambodia MSME COP:

- Presentation on the program activities to USAID and other project COPS at the U.S. Embassy on Feb. 8 and discussion of areas of possible cooperation with other USAID programs in areas such as trafficking, environmental sustainability, anti-corruption efforts, value chain development and competitiveness.
- The COP made a presentation entitled “Small Enterprises: New Sources of Growth” at a Conference for Distinguished Members of the National Assembly and the Senate of Cambodia on the subject of “Cambodia’s Garment Industry after the End of the Quota System”, organized by The Cambodia-Canada Legislative Support Project and the Economic Institute of Cambodia.

### Other meetings and events:

- Cambodia MSME COP met with Jane O’dell, COP of NAI’s Garment Industry Productivity Center program, to discuss shared technical and start-up concerns.
- Cambodia MSME COP and Component 3 leader attended the launching of the Royal Government of Cambodia’s SME Development Framework.
- Jennifer Fly, DAI Geographic Information Systems (GIS) Specialist, visited from the Bethesda office to assist with Global Positioning System (GPS) training, mapping of VCs and VC actors, and GIS database setup for the project.



### III. NEXT STEPS

Looking ahead to the third quarter, the Cambodia MSME Project plans to broaden and deepen the interventions begun in this quarter. This section lays out the major technical activities anticipated in the program over the next quarter, along with a brief summary of planned supporting administrative activities.

For April-June, the Cambodia MSME Project plans the following general activities:

- Complete project launch meetings in Phnom Penh and all target provinces to publicize the project, promote MSME communication with the project and each other, and link MSMEs to MFIs, business organizations, and input/service providers.
- Work with the CIDS to complete program baseline survey.
- Continue to work with key government agencies, the Kampong Cham SME Association, and provincial chambers of commerce to promote MSME growth and advocacy.
- Continue to work with CRS, IDE, ADB, GTZ and other key partners to design and implement interventions of common interest.

The project plans the following activities to strengthen each of the selected value chains:

- Continue to identify and strengthen relationships with lead firms and entrepreneurs.
- Facilitate growth of MSME market awareness, networking and product marketing by promoting their participation in Cambodian trade fairs.
- Arrange exposure tours to other provinces and neighboring countries to promote MSME awareness, networking and market access.
- Work with private sector providers to improve packaging and distribution of key inputs.
- Facilitate trainings to service providers where necessary to upgrade skills and help them market their services.
- Improve networking and cooperation among MSMEs by facilitating common activities, promoting VC chain interest groups, and working with existing networks and associations such as the Kampong Cham SME Association.

More specifically, in the fish and pig value chains, Cambodia MSME will:

- Continue work to circumvent or remove swine slaughterhouse monopolies.
- Promote private sector provision of training and capacity-building to producers to help them improve the quality and competitiveness of their fish and pigs.
- Upgrade the capacity of suppliers to provide key feed, medicines, vaccines and cold storage technology to producers.

In the tile VC, the project will:

- Facilitate horizontal links to meet larger orders.

- Explore the feasibility of pairing expert(s) from Vietnam or Thailand with local experts to develop technological capacity in compression molds, kilns, grinding and other relevant technology.
- Identify clay input providers and compression mold/extruder design service providers who may be supported to improve technology.

To improve access to finance, the Cambodia MSME Project will focus on the following activities:

- Continue to promote the understanding and use of the Credit Information System by provincial MFIs.
- Develop and refine profiles of client cash flow and financing needs among producers, traders, processors, wholesalers and retailers.
- Develop potential business models for new financial products for FIs that are suitable for MSMEs.
- Meet with Canadia and ACLEDA bank staff to discuss using the DCA loan guarantee to promote MFI loans to MSMEs in target areas and sectors.
- Continue to link MSMEs with MFIs through provincial meetings, workshops and other events.

To support its ambitious technical goals, the Cambodia MSME Project is planning the following administrative activities:

- Complete setup of IT equipment including linking the project office server in Phnom Penh to the home office server in Bethesda.
- Installation and staff training on TAMIS (DAI's project management software), Lotusnotes and other key project software.
- Recruit all remaining technical and office staff (include Prey Veng office manager and assistant).
- Set up Prey Veng guest house.